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Food-grade Soy Demand Promising but Uncertainty Remains

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Report Highlights:
ATO Beijing recently visited China's major food-grade soy trade show, and spoke with local soy food producers to explore U.S. food-grade soybean export potential. Local contacts respect U.S. soybeans for their high quality, rich color, and versatility in food processing. The local *Huainan* soybean is favored for its high protein content, however traders and food manufacturers are not pleased with its inconsistent quality. Contacts reported a strong interest to import U.S. soybeans, however they cautioned that purchases are held back by bilateral trade uncertainties and the lack of a low-level presence policy by China's General Administration of Customs. Despite these obstacles, Post recommends that U.S. exporters maintain contact with potential importers and manufacturers, and also consider working with likeminded exporting countries (e.g., Canada) to further develop China's growing market for imported food-grade soybeans.

Background
On April 12-13, staff from the U.S. Department of Agriculture, Foreign Agricultural Service's, Agricultural Trade Office (ATO) in Beijing traveled to Anhui Province to participate in the 2018 Soyfood Processing Technology and Equipment (SPEE) trade show and to visit with local soy food producers. SPEE is organized by the Bean Products Committee (BPCA) of China's National Food Industry Association, while the visits were organized by the U.S. Soybean Export Council (USSEC). The biannual SPEE is the largest food-grade soy trade show in China. This marketing update follows ATO Beijing's recent reverse food-grade soybean trade mission to North Dakota and the August 2017 marketing report on food-grade soybeans.

SPEE Show Evaluation
The 2018 SPEE was the eighth time the show has been held since it was launched in Shanghai in 2002. Although this show is small compared with other major food trade shows in China, it continues to attract key soy processing representatives. Exhibitors included machinery suppliers, soy food manufacturers, food ingredients suppliers, marketers, and media agencies. At least eight U.S. food-grade soybean suppliers were present to the show, representing both producers and exporters from Iowa, Minnesota, Nebraska, North Dakota and Illinois. The U.S. Soybean Export Council and the Ohio Soybean Council also attended the show. Post estimates that the amount of visitors to the 2018 show was the same as the 2016 show, however some U.S. contacts noted that visitors were less this year compared to prior years. Rising trade tensions between China and the United States, could have had some effect on the number of Chinese visitors to U.S. exhibitors. The only other foreign exhibitors at the show was the Canadian soy processor and exporter, Ceresco.

Canada is aggressively targeting China's food-grade soy market. Canada exported 130,000 metric tons of food-grade soybeans to China in the 2016/17 marketing year. This represents 23 percent of China's food-grade soybean imports, and a nearly 5-fold increase from what Canada exported during the 2014/15 marketing year. While Post is focused on increasing U.S. exports to China, it is positive to see that China is importing Canadian soybeans. Post estimates that North American soybeans have increased their market share from 7 percent of China's imports to 24 percent in the past two years. This indicates a robust demand for high quality food-grade soybeans which the United States is poised to meet once trade barriers are lowered.

China's Local Food-grade Soybean Market
Anhui Province is considered by many to be the birthplace of Chinese tofu, and is China's leading food-grade soybean producing province. Anhui soybeans are famous for their high protein content which lend themselves well to producing soy-based food products. ATO Beijing visited three companies during this visit which included, Kaiye Grains and Oils Trading, Wan Wan Xiang Soyfood, and Jin Cai Di Foods. Kaiye Grains and Oils Trading is a soybean trading company, while the other two companies are soy food manufacturers. Industry contacts consider these three companies to be large, however none had experience importing soybeans.

The local *Huainan* soybean, is big in size, oval, and prized for its high protein content which averages 42 to 44 percent. Huainan soybeans suffer from quality issues. There is a high ratio of split and damaged beans, due to the beans being poorly cleaned. The beans must be further cleaned and selected by food manufacturers which increases the cost of purchasing this local variety. Despite the quality issues, Post noted that Huainan beans are about $78 (RMB 500) higher per metric ton compared to Northeast

Chinese soybeans owing to their higher protein content and low transportation cost to Anhui and the surrounding region's soy food manufacturers.

Comparing U.S. and Local Huainan Soybeans
To provide U.S. soy exporters a reference point, Post spoke with local contacts about the perceived advantages and disadvantages of U.S. and locally sourced food-grade soybeans. Huainan soybeans are perceived to have superior protein content relative to U.S. soybeans, however U.S. soybeans are respected for their high quality and richer color which allows U.S. soybeans to be used in a wide variety of food-based products. Traders and manufacturers note the higher transportation cost of U.S. soybeans and the risk of a shipment being detained at the port. However, they also note the high quality of U.S. soybeans can save them $30-40 per metric ton, because they do not need to be further selected and cleaned like local soybeans must be. Contacts thought U.S. soybeans could aggressively compete with local sources.

Anhui Province's soy food industry has been steadily growing over the past few years. This has in turn increased demand for food-grade soybeans. In Huainan (a prefecture in Anhui), Post estimates that there are over 4,000 uncertified tofu manufacturers. These manufacturers are operating without complete oversight or regulation by government authorities. They are responding to growing demand for soy-based foods which are again popular in China due to their reputation as a traditional Chinese health food. While these manufacturers are supposed to be using only non-GMO soybeans to make soyfood products, most are choosing GMO soybeans due to the lower cost of GMO soybeans. Post believes that if the Chinese government forces these unregulated soy food manufacturers to use non-GMO soybeans, the industry would have to rely significantly more on imports to meet rising demand. Post's industry contacts estimate that China's prohibited use of GMO soybeans in food manufacturing range between 5 and 10 million metric tons per year, which is two to four times China's official estimate of its domestic food-grade soybean shortage for the 2017/18 marketing year.

Recommendations for U.S. Exporters
The largest technical barrier preventing increased U.S. exports of food-grade soybeans to China is that the country has a zero tolerance for unapproved biotechnology traits in imports. China's lack of a low level presence (LLP) policy have resulted in detained and rejected shipments and other trade disruptions for a wide range of grain and grain products. Bilateral trade tensions could also be potentially holding back Chinese importers from purchasing U.S. food-grade soybeans. Despite this barrier, ATO Beijing suggests U.S. exporters and trade associations maintain contacts with Chinese soy-food importers and manufacturers. Consumer demand for soy-based food products continues to increase, and it will be difficult for China to increase production of high quality non-GMO soybeans.

Post also suggests that U.S. industry establish or maintain contact with Canadian food-grade soybean producers and exporters who have increased their market share over the past few years. While Canadian food-grade soybeans must cope with the same lack of a LLP policy, producers have successfully managed to increase exports. We further recommend that U.S. exporters consider exhibiting at one of China's large food trade shows such as Food Ingredients China (FIC), Food and Hotel China (FHC) or SIAL China. Beside the technical trade barriers, ATO Beijing has noted that U.S. food-grade soybeans suffer from inaccurate perceptions (that "all U.S. soybeans are GMO") among Chinese consumers and smaller food manufacturers. While there are certainly marketing costs to consider, U.S. exporters could

work on correctly these misperceptions by promoting their products at one of China's more consumer-centric food trade shows such as FIC, FHC, or SIAL.